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STATE PASS TO USTR FOR BILL JACKSON

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TAGS: [ECON](#) [ETRD](#) [PGOV](#) [SF](#)  
SUBJECT: SOUTH AFRICA LIKELY TO RAISE SOME TARIFFS IN  
RESPONSE TO GLOBAL CRISIS

REF: (A) PRETORIA 924 (B) PRETORIA 1010

Classified By: Economic Counselor Perry Ball, reasons 1.4 (b) and (d)

¶1. (C) Summary: South Africa is likely to raise "a few" tariffs to WTO-bound levels in response to the global economic crisis, according to an official at the Department of Trade and Industry (DTI). Industrial policy will have greater prominence under President Jacob Zuma, as Trade and Industry Minister Rob Davies is likely to play an important role in the Zuma cabinet. DTI trade negotiators tend to respond to political pressures and give little attention to the trade relationship with the U.S., although new activism on U.S./SACU trade talks might indicate a change. Few economic policy initiatives will be seen until structures and relationships in the new South African cabinet are sorted out. End Summary.

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Tariffs to be Raised  
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¶2. (C) South Africa is likely to raise "a few tariffs" to WTO-bound levels in response to the global economic crisis, according to South African Department of Trade and Industry (DTI) Chief Director (Trade Policy) Mzukisi Qobo. Qobo met with Deputy Economic Counselor and Trade & Investment Officer on June 3 to discuss trade policy issues. An academic, Qobo is working at DTI on a long-term contract to draft a comprehensive paper on South African trade policy.

¶3. (C) Qobo stressed that tariffs would be raised in only a limited range of sectors, explaining, "People in government understand the international implications of this move, and they understand that raising tariffs can make the economy less competitive." He felt, however, that the SAG had little choice in the matter given the strong protectionist views of unions and the role labor played in electing Jacob Zuma. Comment: In February, the South African government released a "framework" for responding to the global crisis that identified several policy mechanisms, including bridge loans to distressed firms, "Buy South Africa" measures, mediation to avoid layoffs, and trade measures. So far the SAG has not finalized a plan for implementing the framework. Post expects that most of the response will continue to take the form of fiscal stimulus, supplemented by jobs programs, soft loans to specific firms, and other relatively "surgical" measures. Post does not expect a sweeping protectionist response. End Comment.

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Personalities, Politics  
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¶4. (C) Qobo confirmed that industrial policy will have more prominence under Zuma, predicting, "There will be more funding for incentives and subsidies for strategic sectors." He also said that tariffs will play an important role in industrial policy, with tariffs on some inputs for strategic sectors being lowered and tariffs on selected downstream

products being raised. According to Qobo, the "long battle" between National Treasury and DTI over funding industrial policy is over, with DTI victorious. However, Qobo scoffed at the idea that the SAG would throw money at strategic sectors willy-nilly. "The government is more disciplined than that," he said. Comment: The government is facing serious budget pressures because of the ongoing recession and the related decline in taxes and customs revenues. End Comment.

15. (C) Qobo predicted that Trade and Industry Minister Rob Davies, a staunch advocate of industrial policy, will play a "big role" in economic policy under Zuma. "Davies consults with business, he knows DTI, and he has an incredible command of policy details," he said. Qobo also observed, "Davies almost gets down in the weeds too much. Sometimes he prepares his own Power Point presentations. Sometimes he does his own research." Qobo said Minister of Economic Development Ebrahim Patel will also have an important role in cabinet, "if only because he has the weight of (labor federation) COSATU behind him." Qobo described Patel as "smart" but handicapped by an "incredibly difficult personality." He also said it is unclear what role Patel's new ministry will play.

16. (C) Speaking of the entire cabinet, Qobo said, "Everything is fluid. There is no high-level strategizing taking place on economic issues. No one knows how the new ministers will relate to each other or to Zuma." Qobo predicted that "real boldness" will not be seen for at least six months.

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Trade Strategies  
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17. (C) Qobo was surprised to hear that South Africa wants to breathe life into the long-delayed Trade, Investment and Development Cooperative Agreement (TIDCA) talks with the U.S. (reftels). "If there's a push to deepen the dialogue with the U.S., it's coming from the political level," he speculated, adding, "At the working level, few trade officials even mention the U.S. All they talk about is 'African integration' or 'South-South links.'" Qobo described DTI's trade negotiators as "incredibly overstretched" by simultaneous engagements with Europe, India, and numerous African and Latin American countries. "Most of this activity is a response to political pressures," he claimed.

18. (C) Qobo said that DTI urgently needs to step back and think strategically about key markets and sectors that present real opportunities for South Africa. He agreed that the trade relationship with the U.S. does not get the attention it deserves, given the importance of the U.S. as a trade partner. (Note: The U.S. was South Africa's largest export market in 2007 and second largest export market in 2008, after being displaced by Japan. End Note.) Qobo put much of the blame for this neglect on the South African corporate sector, saying, "The big companies that trade with the U.S. rarely engage DTI on trade issues." Qobo also said that DTI urgently needs to address capacity shortages in its ranks. "Fixing DTI" will be one of Davies' top priorities, he said.

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Comment  
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19. (C) Qobo is correct that economic decision-making is in a state of uncertainty. The role of Trevor Manuel's new National Planning Commission is unknown, and Ebrahim Patel's mandate at Economic Development is murky. Meanwhile, Trade and Industry Minister Rob Davies, Finance Minister Pravin Gordhan, and Public Enterprises Minister Barbara Hogan have yet to emerge as policy leaders. The new economic ministers reflect the broad ideological diversity of the ANC, and they may have difficulty working together as a team, especially if

there is no strong leadership from Zuma.

LA LIME